

The State of Illinois provides a manufacturer's purchase credit in addition to the exemption for manufacturing machinery and equipment. See 86 Ill. Adm. Code 130.331. (This is a GIL).

October 6, 1999

Dear Xxxxx:

This letter is in response to your letter dated September 10, 1999. The nature of your letter and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120(b) and (c), enclosed.

In your letter, you have stated and made inquiry as follows:

We are currently trying to determine if we can apply Manufacturers Purchase Credit earned to a particular product. The Retailers Occupation Tax Title 86, Part 130 Section 130.331 does not specifically include or prohibit us from using this credit.

We are a manufacturer of medicine cabinets and ventilation products. We have purchased four personal computers for use in a manufacturing environment. They will be used by our engineering department by our manufacturing engineers. These computers will require Auto Cad for the use of product design modifications, process research for process improvements, and revision of blueprints for changes in product to implement cost reductions.

Computer use breakdown:

- All 4 computers will Have CAD - computer Animated Design
- All computers will be used for process design, analysis, and research, including researching new processes for new products as well as improving processes for existing products
- All will be used for product development and design
This includes existing product line changes and improvements and also research and development of new products that we manufacture or will manufacture in the immediate future
- All computers will be used to research and make design changes on existing products to implement and discover cost reductions in product design and manufacturing process changes

- One of the four computers will have (in addition to the above functions) Metal Soft Fabricam software.
This software is used for programming and revising changes that run our CNC manufacturing machinery and equipment

Are these computers taxable? If not, do the above issues qualify this equipment as production related tangible personal property? Do they fall under research and development? Can we use MPC for the purchase of four personal computers?

Under the Retailers' Occupation Tax Act, the manufacturing machinery and equipment exemption is available for machinery and equipment used primarily (over 50% of the time) in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease. See 86 Ill. Adm. Code 130.330, enclosed.

"Manufacturing" is defined as the production of any article of tangible personal property, whether such article is a finished product or an article for use in the process of manufacturing or assembling a different article of tangible personal property, by procedures commonly regarded as manufacturing, which changes some existing material or materials into a material with a different use, form, or name. These changes must result from the process in question and be substantial and significant.

Generally, the use of machinery or equipment to effect a direct and immediate physical change upon the tangible personal property to be sold will be considered to constitute an exempt use under the manufacturing machinery and equipment exemption.

Purchases of certain computer equipment are entitled to the exemption when the computer equipment is used primarily in operating exempt machinery and equipment in a computer-assisted design, computer-assisted manufacturing (CAD/CAM) system. See Section 130.330(c)(3). The exemption also extends to repair and replacement parts as long as the parts are incorporated into machinery and equipment that is exempt under the regulation. Section 130.330(c)(3) also discusses when such computers qualify for the exemption and states as follows:

"Equipment includes any independent device or tool separate from any machinery but essential to an integrated manufacturing or assembling process: including computers used primarily in operating exempt machinery and equipment in a computer-assisted design, computer-assisted manufacturing (CAD/CAM) system; or any subunit or assembly comprising a component of any machinery or auxiliary, adjunct, or attachment, parts of machinery, such as tools, dies, jigs, fixtures, patterns and molds, and any parts which require periodic replacement in the course of normal operation. The exemption does not include hand tools, supplies (such as rags, sweeping or cleaning compounds), coolants, lubricants, adhesives, or solvents, items of personal apparel (such as gloves, shoes, glasses, goggles, coveralls, aprons, masks, mask air filters, belts, harnesses, or holsters), coal, fuel

oil, electricity, natural gas, artificial gas, steam, refrigerants or water. (Section 2-45 of the Act)"

The exemption is not available for purchases of computer equipment used in activities such as job scheduling, input/output measuring, parts/inventory tracing, accounts receivable/payable, payroll or other accounting or managerial functions, or any other use that does not involve primarily operating exempt machinery and equipment. See 86 Ill. Adm. Code 130.330(d)(4). That is, computers and software used for accounting, financial or managerial purposes do not qualify, even though they may be considered essential to the business of manufacturing, because such usage does not constitute the operating of machinery and equipment primarily in manufacturing that is required by the regulation had the machinery been taxable. See 86 Ill. Adm. Code 130.330(d)(2).

The State of Illinois provides a manufacturer's purchase credit in addition to the exemption for manufacturing machinery and equipment. See 86 Ill. Adm. Code 130.331, enclosed. Purchasers of manufacturing machinery and equipment that qualifies for the manufacturing machinery and equipment exemption earn a credit in an amount equal to a fixed percentage of the tax which would have been incurred under the Use Tax or Service Use Tax. 35 ILCS 105/3-85; 35 ILCS 110/3-70.

The credit may be used to satisfy Use Tax or Service Use Tax liability that is incurred on the purchase of production related tangible personal property that does not qualify for the manufacturing machinery and equipment exemption. Effective June 30, 1995, the reporting requirements were changed to an annual reporting method instead of the monthly method required for manufacturer's purchase credit earned and used prior to that date.

"Production related tangible personal property" means (i) all tangible personal property used or consumed by the purchaser in a manufacturing facility in which a manufacturing process takes place, including tangible personal property purchased for incorporation into real estate within a manufacturing facility and including, but not limited to, tangible personal property used or consumed in activities such as pre-production material handling, receiving, quality control, inventory control, storage, staging, and packaging for shipping and transportation purposes; and (ii) all tangible personal property used or consumed by the purchaser for research and development.

"Production related tangible personal property" does not include (i) tangible personal property used, within or without a manufacturing facility, in sales, purchasing, accounting, fiscal management, marketing, personnel recruitment or selection, or landscaping or (ii) tangible personal property required to be titled or registered with a department, agency, or unit of federal, state, or local government.

I hope this information is helpful. The Department of Revenue maintains a Web site, which can be accessed at www.revenue.state.il.us. If you have further questions related to the Illinois sales tax laws, please contact the Department's Taxpayer Information Division at (217) 782-3336.

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If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b).

Very truly yours,

Melanie A. Jarvis
Associate Counsel

MAJ:msk
Enc.